

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

* * * * *

In the Matter of:

APPLICATION OF ANDRIOT-DAVIDSON'S)
SERVICE CO., INC., D/B/A FERN HILL)
UTILITY, INC., FOR AUTHORITY TO ACQUIRE)
AND OPERATE THE SEWAGE TREATMENT)
PLANT OPERATED BY FERN HILL CO., INC.)
IN JEFFERSON COUNTY, KENTUCKY)

AND) CASE NO. 7803

APPLICATION OF ANDRIOT-DAVIDSON'S)
SERVICE CO., INC., D/B/A FERN HILL)
UTILITY, INC., FOR AN ORDER ADJUSTING)
THE RATES CURRENTLY CHARGED BY FERN)
HILL CO., INC.)

O R D E R

On March 31, 1980, Andriot-Davidson's Service Co., D/B/A Fern Hill Utility, Inc., (Applicant) filed its application with this Commission for authority to acquire and operate the sewage treatment plant operated by Fern Hill Co., Inc., in Jefferson County, Kentucky and for an Order adjusting the rates currently charged by Fern Hill Co., Inc. The proposed rates would increase annual revenues \$41,455, an increase of 71%.

The Applicant has entered into an agreement to purchase the assets of Fern Hill Co., Inc., which operates a sewage treatment plant serving four hundred fifty four (454) customers in Jefferson County, Kentucky. Citizens Fidelity Bank and Trust Company, Louisville, Kentucky, holder of the first mortgage of \$187,000 on the assets of Fern Hill Co., Inc., has agreed to refinance the loan in the amount of \$230,000 to pay off existing debts plus cash to make necessary repairs and improvements to bring the system up to minimum operational requirements.

The case was scheduled for hearing at the Commission's offices in Frankfort, Kentucky, August 13, 1980. All parties of interest were notified and the Division of Consumer Intervention of the Attorney General's Office was the only party formally intervening herein although a consumer of the utility appeared at the hearing and made a statement in opposition to the proposed increase.

At the hearing, the Division of Consumer Intervention of the Attorney General's Office made a request that the Commission issue a subpoena requiring Mr. Jack Young, President of Fern Hill Co., Inc., to appear and testify, and on August 24, 1980, filed a motion to compel testimony of Mr. Jack Young.

The case was scheduled for further hearing at the Commission's offices in Frankfort, Kentucky, September 23, 1980, and Mr. Elmer D. (Jack) Young, President of Fern Hill Co., Inc., was subpoenaed to present testimony relative to this matter.

After the hearings, additional information was requested. This information has been furnished and the entire matter is now considered to be submitted for final determination by this Commission.

Opinion and Findings

Test Period

Since there were no formal records other than cash receipts and cash disbursements prior to the filing of this application, the Applicant had submitted for the comparative income statement, the summary of 1977 test year revenues, expenses, and proforma adjustments developed by the Commission in rate Case No. 6954, dated June 21, 1978. The testimony reflected that the Fern Hill Co., Inc., had been operated for the past year by Andriot-Davidson Service Co., Inc., with the Citizens Fidelity Bank controlling the cash receipts and the expenditures of the utility. The Commission obtained the actual cash expenditures for the period November 1, 1979, from October 31, 1980, and the accounts payable for this period, from the Applicant. From this additional information the Commission has constructed an Income Statement for the twelve month period ending October 31, 1980, which will be utilized as the test period in this matter. We are of the opinion this is a more representative period which reflects the actual income and expenditures of the utility.

Revenues and Expenses

Based on the additional information submitted subsequent to the hearing from the Applicant the test year actual and proforma Income Statement would reflect the following:

	<u>Actual</u> <u>10-31-80</u>	<u>Adjustments</u>	<u>Proforma</u>
Operating Revenues	\$57,599	\$23,925 ⁽¹⁾	\$81,524
Operating Expenses:			
Service Contract	5,746	(410) ⁽²⁾	5,336
Repairs	10,373	(873) ⁽³⁾	9,500
Sludge Hauling	6,700	(1,000) ⁽⁴⁾	5,700
Chemicals	930		930
Utilities-Electric	9,240		9,240
Utilities-Water	1,094		1,094
Health Dept. Fee	700		700
Water Analysis	120		120
Collection Charges	2,007		2,007
Bookkeeping	1,200		1,200
Printing Expense	349		349
Management Fee	1,100	100 ⁽⁵⁾	1,200
Office Supplies	57		57
Legal Fees	131	(131) ⁽⁶⁾	0
Rent	600		600
Misc. Supplies	175		175
U.R.C. Assessment	54		54
Taxes	2,021	(1,497) ⁽⁷⁾	524
Rate Case Expense	462		462
Depreciation		1,749 ⁽⁸⁾	1,749
Interest Expense	12,143	9,096 ⁽⁹⁾	21,239
Income Taxes		4,100 ⁽¹⁰⁾	4,100
Total Operating Expenses	<u>\$55,202</u>	<u>\$11,134</u>	<u>\$66,336</u>
Net Income	<u>\$ 2,397</u>	<u>\$12,791</u>	<u>\$15,188</u>

- (1) The additional revenue of \$23,925 includes a normalization adjustment of \$803 and the additional revenue increase of \$23,122.
- (2) A reduction of \$410 to adjust the amount of service fees to reflect twelve months expense rather than the thirteen months contained in the actual test year.
- (3) A reduction of \$873 to reflect a normal level of repairs.
- (4) A reduction of \$1,000 to exclude from the test period the payment for sludge hauling for a prior period. The proforma amount included herein for sludge hauling will reflect a normalized cost based on the established cost of \$95 at the end of the test year.
- (5) An increase of \$100 to reflect a twelve-month management fee at the rate of \$100 per month.
- (6) A reduction of \$131 in legal fees which were incurred during the test year for incorporating the Company. The Commission is of the opinion that this cost will be non-reoccurring to the Applicant.
- (7) A reduction of tax expense of \$1,497 to exclude taxes including penalties for late payment, paid during the test year for prior years.
- (8) An increase of \$1,749 to reflect the allowable depreciation expense as proposed by the Applicant.
- (9) An increase in interest expense of \$9,096 to reflect the additional cost associated with the refinancing of the debt outstanding as a result of the purchase agreement approved herein. The allowed interest expense is based on the debt financing which is required under the purchase agreement, at an interest rate of 15% for a period of 15 years. However, the Commission has excluded interest expense on the debt required to settle the accounts payable to Andriot-Davidson Service Co., Inc., for ratemaking purposes inasmuch as Andriot-Davidson is the parent corporation and will be the new owner of Applicant.
- (10) An increase of \$4,100 to reflect the Income Tax Expense based on the additional revenue allowed herein.

Findings and Order

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds:

1. That the Applicant is ready, willing and able to maintain and operate the facilities of the Fern Hill Co., Inc.
2. That the proposed sale is in the public interest and should be approved.
3. That in consideration for the acquisition herein is the assumption by the Applicant of the various debts and liabilities of Fern Hill Co., Inc., as set out in the record herein on exhibit J.
4. That the proposed acquisition of Fern Hill Co., Inc., by the Applicant is in lieu of foreclosure by Citizens Fidelity Bank and Trust Company which holds a mortgage on the property of Fern Hill Co., Inc.
5. That the rates prescribed and set forth in Appendix "A" attached hereto and made a part hereof, are the fair, just and reasonable rates to be charged by the Applicant for services rendered to its customers. Further, that these rates should produce annual revenues of approximately \$81,524 which should be adequate to provide for operating expenses including depreciation and interest and for the servicing of its debt.
6. That the rates proposed by the Applicant are unfair, unjust and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.
7. That upon the acquisition of the sewage treatment facilities approved herein, Applicant shall execute a valid third party beneficiary agreement guaranteeing the continued operation of the sewage treatment facilities. The rates and charges approved herein are to become effective on and after the date of this order subject to the execution of said agreement.

IT IS THEREFORE ORDERED that the Applicant's request for authority to acquire and operate the sewage treatment plant operated by Fern Hill Co., Inc., in Jefferson County, Kentucky and to assume the various debts and liabilities of Fern Hill Co. Inc., is hereby approved.

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7803 DATED DECEMBER 18, 1980

The following rates are prescribed for all customers served by Fern Hill Utility, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

Single-family residential	\$ 11.75 per residence
Multi-family residential	9.10 per dwelling unit
All other	11.75 per residence equivalent*

*Residential equivalent = 6,500 gallons per month